BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2004-4-G – ORDER NO. 2005-43

FEBRUARY 1, 2005

IN RE:	Piedmont Natural Gas Company – Annual Review of the Purchased Gas Adjustment and Gas Purchasing Policies.	)))	ORDER RULING ON GAS COSTS AND GAS PURCHASING POLICIES

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina ("Commission") on its annual review of the Purchased Gas Adjustment ("PGA") and gas purchasing practices of Piedmont Natural Gas Company ("Piedmont"). This review is being made pursuant to the provisions and requirements of Order No. 88-294, dated April 6, 1988.

By letter, the Commission's Executive Director instructed Piedmont to publish and prepare Notice in a newspaper of general circulation in the areas affected by the proceeding. The Notice indicated the nature of the annual review and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceedings. Piedmont was also instructed to notify directly all of its customers by furnishing a copy of the Notice to each customer. Piedmont submitted publishing affidavits and a certification indicating that it had complied with instructions of the Executive Director. The Consumer Advocate for the State of South Carolina

("Consumer Advocate") and the South Carolina Energy Users Committee ("SCEUC") intervened in this proceeding.

A hearing was held on this matter on July 22, 2004, at 10:30 a.m. in the Commission's hearing room, with the Honorable Randy Mitchell, Chairman, presiding. Piedmont was represented by James H. Jeffries IV, Esquire and Kerry B. McTigue, Esquire. Piedmont presented the direct testimony of Ann H. Boggs and the direct testimony of Keith P. Maust. The Consumer Advocate was represented by Hana Pokorna-Williamson, Esquire. The Consumer Advocate did not present witnesses. SCEUC, by written notice filed with the Commission on July 21, 2004, elected not to participate in the hearing. The Commission Staff ("Staff") was represented by David Butler, Jr., General Counsel. The Staff presented the testimony of Roy H. Barnette and Brent L. Sires.

SUMMARY OF EVIDENCE

Piedmont Witness Keith P. Maust presented testimony describing Piedmont's gas purchasing policies. Witness Maust described Piedmont as a local distribution gas company primarily engaged in the purchase, distribution, and sale of natural gas to more than 884,000 customers in the Piedmont region of South Carolina and North Carolina and the metropolitan area of Nashville, Tennessee. In South Carolina, Piedmont serves approximately 126,000 customers, and Piedmont delivered 24,400,000 dekatherms to Piedmont's customers in South Carolina during the 12-month period ending March 31, 2004.

Witness Maust explained that Piedmont provides service to two distinct markets, one being the firm market principally comprised of residential, small commercial, and small industrial customers, and the other being the interruptible market comprised principally of large commercial and industrial customers. With regard to the firm market, Piedmont competes with electricity for the attachment of firm customers. However, Witness Maust explained that once a firm customer is attached to the Piedmont System these customers have no readily available alternative source of energy and depend on natural gas for their basic space heating or utility needs. For the 12-month period ending March 31, 2004, Piedmont delivered approximately 15,400,000 dekatherms, or 63 percent of its South Carolina deliveries, to the firm market.

In the interruptible market, Piedmont competes on a month-to-month and day-to-day basis with alternative sources of energy, primarily fuel oil or propane and, to a lesser extent, coal or wood. The larger commercial and industrial customers in the interruptible market will buy alternate fuels when those fuels are less expensive than gas. During the 12-month period ending March 31, 2004, Piedmont delivered approximately 9,000,000 dekatherms, or 37 percent of its South Carolina deliveries, to the interruptible market.

According to Witness Maust, Piedmont has and continues to maintain a "best cost" gas purchasing policy, which consists of five main components: the price of gas, the security of the gas supply, the flexibility of the gas supply, gas deliverability and supplier relations. Witness Maust described each of the five components[1] of Piedmont's

[1] Witness Maust provided the following descriptions for the five components of Piedmont's "best cost" gas purchasing policy:

"best cost" gas purchasing policy and the steps taken during the review period to comply with that policy.

The five main components of Piedmont's gas purchasing policy are interrelated and Witness Maust explained that Piedmont weighs the relative importance of each component when developing an overall gas supply portfolio to meet the needs of Piedmont's customers. Witness Maust described Piedmont's efforts to secure and maintain a supply portfolio that is in balance with the requirements of its sales markets. Because Piedmont's firm sales market must have a secure and reliable gas supply, Witness Maust testified that Piedmont meets the needs of its firm sales market with long-term firm supply and transportation contracts, supplemented by storage and peaking services. Witness Maust further testified that these supply and capacity arrangements are

(a) The "price of gas" refers to the delivered cost of gas to Piedmont's city gate. In order to properly judge prices at a comparable transaction point, Piedmont evaluates purchase prices at the pipeline city gate points of delivery into Piedmonts' distribution facilities.
(b) "Security of gas supply" refers to the assurances that the supply of gas will be available when needed. While it is obviously important to maintain a high level of supply security for Piedmont's firm customers who have no alternate fuel capability, security of gas is interrelated with the price of gas because fixed reservation fees are generally required in addition to the commodity cost of gas in order to reserve firm gas supplies under contract. Additionally, Piedmont considers the geographic source of supply, the nature of the supplier's portfolio of gas supplies, and negotiated contract terms when evaluating the level of supply security.
(c) "Flexibility of gas supply" refers to Piedmont's ability to adjust the volume of a particular gas supply as operating and market conditions change from time-to-time. Thus, Piedmont must arrange a portfolio of gas supplies and storage service that is flexible enough to meet the daily and monthly "swings" in the market place.
(d) "Gas deliverability" refers to the ability to obtain Piedmont's gas supplies at the city gate through reliable transportation and storage capacity arrangements. Transportation arrangements can involve supply area gathering services, intrastate transportation, interstate lateral line and pooling services, multiple interstate pipeline transportation and storage arrangements, and balancing and peaking services. The marketplace for pipeline capacity is dynamic with supply and demand determining availability. Piedmont must secure and maintain transportation and storage capacity rights to ensure deliverability of its gas supplies to meet the peak day, seasonal, and annual needs of the customers, and pipeline capacity contracts require the payment of fixed demand charges to reserve firm transportation or storage entitlement.
(e) "Supplier relations" refers to the dependability, integrity, and flexibility of a particular gas supplier. Piedmont contracts with gas suppliers that have a reputation of honoring their contractual commitments and have proven themselves as reliable suppliers. Further, Piedmont avoids suppliers which have a reputation of defaulting on contract obligations or which unilaterally interpret contracts to their advantage.

designed to serve Piedmont's baseload, seasonal and peak day needs in an efficient and reliable manner. The temperature sensitivity of the firm market necessitates that Piedmont provide flexibility of supply and storage. Witness Maust noted that firm supply contracts demand a premium payment, typically in the form of fixed reservation fees, and firm supply contracts with flexibility of swing service entitlements command a higher price than baseload arrangements.

Regarding the interruptible market, Witness Maust testified that the interruptible market is more price sensitive but requires less security of supply. Piedmont serves its interruptible market with off-peak firm gas supply and transportation services when the core market demand declines as well as through the purchase of gas supplies in the spot market. Witness Maust stated that Piedmont is satisfied that the policies and procedures presently in place are prudent and that the policies and procedures have produced adequate amounts of reasonably priced gas for Piedmont's customers.

Witness Maust testified that Piedmont did not make any changes in its "best cost" gas purchasing policies or practices during the year, but he outlined the additional steps taken by Piedmont to manage its gas costs, consistent with its overall "best cost" gas purchasing policy. These additional steps include: (1) that Piedmont has actively participated in proceedings before the FERC and other regulatory agencies that could reasonably be expected to affect Piedmont's rates and services; (2) that Piedmont has actively renegotiated and restructured eligible supply and capacity contracts to take advantage of market opportunities; (3) that Piedmont has utilized the flexibility within its supply and capacity contracts to purchase and dispatch gas, and release capacity in the most cost effective manner, resulting in South Carolina capacity release and secondary market sales credits of $3,370,538 during the test period; (4) that Piedmont has actively promoted more efficient peak day use of natural gas and load growth from "year-round" markets in order to improve the Company's load factor and reduce average unit costs; and (5) that Piedmont has reviewed its gas supply activities with its Energy Risk Management Committee in order for the gas supply department to receive input and direction on its performance and planning activities.

Witness Maust testified that Piedmont purchases gas supplies under a diverse portfolio of contractual arrangements with a number of reputable gas producers and marketers. In general, under Piedmont's firm gas supply contracts, Piedmont pays negotiated reservation fees for the right to reserve and call on firm supply service up to a maximum daily contract quantity (nominated either on a monthly or daily basis), and market-based commodity prices tied to indices published in industry trade publications. Firm contracts range in term from one year (or less) to terms extending through October, 2005. Longer term contracts typically provide for periodic reservation fee renegotiations. Some of these contracts are for winter only (peaking or seasonal) service and some provide for 365 day (annual) service. Firm gas supplies are purchased for reliability and security of service and are generally priced on a reservation fee basis according to the amount of nomination flexibility built into the contract, with daily swing service being more expensive than monthly baseload service. When existing supply contracts expire, requests for proposals are sent, as needed, to suppliers meeting Piedmont's "best cost" gas purchasing policy requirements. Firm supplies are then contracted from suppliers whose proposals best fulfill Piedmont's "best cost" gas purchasing policy.

Witness Maust also described Piedmont's activities on the spot market. He explained that Piedmont purchases gas supplies in the spot market under contract terms of one month or less. These contracts provide for little or no supply security in that these contracts are interruptible and short term in nature. As a result, Piedmont relies on these contracts primarily for interruptible markets during off peak periods when spot supplies are more abundant and for supplemental system balancing requirements. Due to the nature of the spot market, these supplies do not command reservation fees and are priced on a commodity basis, generally by reference to industry index or negotiated prices.

Witness Maust concluded that before entering into any agreement to purchase gas or pipeline capacity, Piedmont carefully considers the use for the supply and weighs the five "best cost" factors (price, security, deliverability, flexibility, and supplier relations). To help weigh these factors and exercise its judgment, Piedmont keeps informed about all aspects of the natural gas industry. Piedmont intervenes in all major FERC proceedings involving its pipeline transporters, stays in constant contact with existing and potential suppliers, monitors gas prices on a real-time basis, subscribes to industry literature, follows supply and demand developments, and attends industry seminars.

Witness Maust also discussed the steps taken by Piedmont to determine its projected customer growth and how to best provide for that growth through added capacity and supply arrangements. He testified that Piedmont utilizes an overall assessment of national and regional factors within the new residential and commercial natural gas local distribution markets served by Piedmont and that this information is then supplemented through conversations with Piedmont marketing personnel working within each market. Based on these factors, projected customer growth is then determined based on a linear regression analysis. In his testimony, Piedmont witness Maust provided projected one-day peak design day data for the next four winter heating seasons as well as Piedmont's estimated baseload demand requirements for a four year period. Witness Maust then explained that in determining how to meet the requirements of its firm baseload and peak day requirements it attempts to minimize the per unit cost of gas delivered by correlating the nature and duration of the projected demand requirements with the nature and duration of the assets available to meet that demand. Witness Maust then described a number of the potential supply and capacity expansion projects Piedmont was considering and/or subscribing to in order to meet its projected future demand. Witness Maust then described how Piedmont constructs its load duration curves in order to forecast its firm market supply requirements for normal weather conditions, design day weather conditions, and design winter season conditions. Finally, Witness Maust indicated that the Company utilizes a five percent reserve margin in all three states in which it operates and that this level of reserve margin was accepted in the industry as a whole as reasonable.

Piedmont Witnesses Maust and Boggs testified that the Company's experimental hedging, initiated pursuant to Order No. 2002-223 dated March 26, 2002, functioned properly during the review period by helping to reduce volatility in the wholesale costs of gas allocated to South Carolina customers. Witness Maust explained that Piedmont's

South Carolina customers incurred a net economic cost of $413,299 as a result of the experimental hedging plan during the review period. The Commission Staff found such cost to be $412,335. Company Witness Boggs agreed with Staff's position in her Rebuttal Testimony. Witnesses Maust and Boggs explained that there were no deviations from Piedmont's experimental hedging plan during the review period and that compliance with the plan was monitored by Piedmont's Gas Accounting, Finance, and Corporate Compliance areas, as well as the Energy Risk Management Committee, and that periodic internal audits were also conducted of plan compliance.

Witness Maust explained that Piedmont took other actions to reduce price volatility for its customers. Piedmont utilized storage to lower its average cost of gas last winter. Piedmont's Equal Payment Plan and use of the PGA benchmark price and deferred cost accounting also allowed for a smoothing effect on gas price volatility.

Piedmont Witness Ann H. Boggs testified regarding Piedmont's accounting relating to gas costs and gas inventories. Witness Boggs stated that the Commission ordered Piedmont to maintain an account reflecting its gas costs each month, the amount of gas costs recovered each month, and the amounts deferred each month and to file this information with the Commission in a monthly report. Witness Boggs explained that these current true-up procedures result in a properly stated cost of gas and that Piedmont's gas costs are properly recorded in compliance with Piedmont's Gas Cost Recovery Mechanism and experimental hedging plan as approved by the Commission. Further, Witness Boggs stated that the Deferred Account balance is properly stated as of March 31, 2004. On rebuttal, witness Boggs explained that the Commission Staff made a number of adjustments to the Deferred Account balance as of March 31, 2004, many of which simply reflected updates to review period data, and that she had no objection to any of Staff's adjustments.

Staff Witness Roy H. Barnette presented testimony that the Commission's Audit Staff had reviewed the monthly filings made by Piedmont and the activity included in Piedmont's Deferred Cost of Gas Account No. 253.04 and Piedmont Deferred Account – Hedging Program Account No. 191.01 for the period April, 2003 through March, 2004. According to Witness Barnette, Piedmont began the review period with a net under-collection of $4,962,995 in its Account # 253.04 In addition to the review period Deferred Account activity reflected in Witness Bogg's direct testimony and exhibits, Witness Barnette proposed certain adjustments[2] to the monthly filings of Piedmont, with the net effect of these adjustments increasing the over-collection at March 31, 2004, by $223,612, resulting in an end of review period balance in Account # 253.04 of an over-collection of $1,624,141.

[2] Staff Witness Barnette made the following adjustments to Piedmont's Deferred Cost of Gas Account No. 253.04:

(1) Staff adjusted June 2003 Accrued Interest to include the adjustment recommended by Staff in Docket No. 2003-4-G of ($70,853) to reflect the overall rate of return of 7.29 percent for the 12 months ended March 31, 2003.

(2) Staff adjusted Proration Adjustments by a credit of ($4,150) to reflect the proper sales Allocation Factor for the month of November, 2003.

(3) Staff adjusted the Billed/Filed calculation by a credit of ($40,190) to reflect a correction in the billed rate for certain rate schedules for the month of December 2003.

(4) Staff adjusted the Shared Margin calculation by a credit of ($112,417) to reflect a correction in the amount of Shared Margin from off-system sales and Capacity Release for February, 2004. Staff further proposed to adjust total Company Capacity Release by $76,606 to reduce the allocated South Carolina Shared Margin by $3,028. Staff's total adjustment for February, 2004 is ($109,389).

(5) Staff adjusted Shared Margin by $8,510 to reflect a reduction in the amount from off-system sales for the months of November, 2003 and March, 2004.

(6) Staff made an additional reduction to Interest of ($7,540). Total interest adjustments by Staff are a credit of ($78,393).

Witness Barnette testified that it was Staff's opinion that the adjusted balance at March 31, 2004, of $1,624,141, before including the net hedging activity, fairly represents the over-collection by Piedmont of its gas costs and that the amount is accurately stated and in compliance with prior Commission Orders. Witness Barnette also testified the total risk management hedging gains or losses for the review period is an increase to the cost of gas of $412,335. After including the Hedging Activity, Staff computed the net end of review period over-collection to be $1,211,806.

Brent Sires of the Commission Staff testified concerning the Utilities Department's findings and recommendations resulting from the Utilities Department's analysis of Piedmont's PGA tariff and Gas Purchasing Policies for the period of April, 2003 through March, 2004. Witness Sires testified that the Utilities Department found that Piedmont's PGA is being operated in compliance with the various Commission Orders.[3] Staff's review, according to Witness Sires, indicated that Piedmont's current rate schedules include a $5.75 per dekatherm benchmark cost of gas. Further, Witness Sires stated that Staff is not recommending any change in that current benchmark cost of gas.

Witness Sires further stated that Piedmont's purchased gas adjustment and industrial sales program affords Piedmont the opportunity to recover all negotiated losses from Piedmont's competitive industrial customers. As Piedmont has the opportunity to recover negotiated losses from the deferred account, Piedmont must negotiate its rates to industrial customers only to the level that is competitive with the alternate fuel prices

[3] Witness Sires specifically noted that the Utilities Department found that Piedmont's PGA was being operated in compliance with Commission Orders issued in Docket Nos. 83-126-G, 86-217-G, 95-160-G, 96-514-G, and Docket No. 98-004-G.

without going below the actual cost of gas. Witness Sires testified that this review indicated that Piedmont has been negotiating prices with the industrial customers only to the level which is competitive with the alternate fuels and not below the cost of alternate fuels. Witness Sires stated that Piedmont tracks oil prices on a daily basis and that Piedmont accumulates information about alternate fuels from various sources. Piedmont also corresponds with industrial customers regarding the cost of alternate fuels. This continuous contact with the industrial market, along with Piedmont's many years of experience in the industrial market, places Piedmont in the position of being aware and knowledgeable of the alternate fuel prices in Piedmont's service area.

In addition, Witness Sires testified that Piedmont has a procedure to prevent itself from selling gas at a price that is below Piedmont's actual cost of gas. Under its procedure, Piedmont develops its average cost of gas on a monthly basis and then uses the monthly average price as the starting point for negotiations with competitive industrial customers. Piedmont's Gas Supply Department then evaluates rates that are being negotiated with industrial customers and compares the rates to the volumes and the average commodity price of gas each month.

Witness Sires also opined that Piedmont is acting prudently in arranging for supplies to meet the requirements of its firm customers today, as well as in the future. According to Witness Sires, Piedmont must meet the demands of its firm customers on a peak day, and Piedmont relies on firm contractual quantities as well as firm transportation capacity on the Transco and Columbia Gas Transmission systems to meet its firm obligations. Piedmont must have the volumes of gas needed for that peak day for the firm class of customers without relying on interruptible supplies to serve Piedmont's firm customers on that peak day. Piedmont's reliance on firm contracted quantities as well as firm transportation capacity (as opposed to interruptible supplies) to serve Piedmont's firm customers on a peak day is a prudent plan.

Witness Sires explained Piedmont's contract demand entitlements and peaking capabilities are sufficient to meet Piedmont's firm customers' requirements. For the 2003-2004 winter period, Piedmont has firm demand entitlements and peaking capabilities with Transco and other suppliers totaling 1,350,633 dekatherms. A comparison of Piedmont's demand entitlements with suppliers and peaking capabilities totaling 1,350,633 dekatherms to the Design Day demand requirements of 1,265,232 dekatherms indicates that Piedmont has adequate firm supplies to meet Piedmont's firm customers' requirements.

As for prudency in arranging for supplies to meet the requirements of its customers, Witness Sires testified that Piedmont is active in purchasing gas supplies on the spot market and in making arrangements through interstate pipelines for the delivery of those supplies. Additionally, Piedmont has utilized changes taking place in the gas industry to maximize throughput and load factor on its natural gas system. According to Witness Sires, both of these actions by Piedmont reduce the overall cost of gas to Piedmont's customers. He opined that the spot market plays a vital role in providing LDCs, such as Piedmont, with natural gas supplies at prices competitive with alternate fuels and helps in reducing costs to high priority customers.

Witness Sires also indicated that he has reviewed Piedmont's forecasted future demand requirements and the steps being taken by Piedmont to insure the reliability of supplies. To secure firm supplies for future demand on its system, Piedmont has taken steps ranging from negotiating with suppliers for capacity on the interstate systems to acquiring additional storage capacity to negotiating with suppliers for back-haul gas. Witness Sires also offered that his observations of Piedmont's gas purchasing policies indicate that Piedmont is continuing its attempts to get the best terms available in its negotiations with suppliers and that Piedmont is meeting its obligation to maintain adequate supplies at just and reasonable costs to serve its customers.

Based on the record as a whole, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Piedmont is a local distribution gas company primarily engaged in the purchase, distribution, and sale of natural gas to more than 884,000 customers in the Piedmont region of South Carolina and North Carolina and the metropolitan area of Nashville, Tennessee.

2. Piedmont serves approximately 126,000 customers in South Carolina, and during the twelve month period ending March 31, 2004, Piedmont delivered 24,400,000 dekatherms of natural gas to its customers in South Carolina.

3. Piedmont provides natural gas service to both firm and interruptible customers in South Carolina. For the twelve month period ending March 31, 2004, Piedmont delivered approximately 15,400,000 dekatherms, or 63 percent of its South

Carolina deliveries, to firm customers in South Carolina and delivered approximately 9,000,000 dekatherms, or 37 percent of its South Carolina deliveries, to interruptible customers in South Carolina.

4. For its gas purchases, Piedmont has and utilizes a "best cost" gas purchasing policy. Piedmont's "best cost" gas purchasing policy consists of five main components – the price of gas, the security of gas supply, the flexibility of the gas supply, gas deliverability, and supplier relations – that are interrelated and weighed in developing an overall gas supply portfolio to meet the needs of Piedmont's customers.

5. During the twelve-month period ending March 31, 2004, Piedmont did not make any changes to its "best cost" gas purchasing policies. However, Piedmont continued to operate its Commission approved experimental hedging program and also engaged in additional steps to manage its gas costs, such as (1) participating in proceedings before the FERC and other regulatory agencies that could reasonably be expected to affect Piedmont's rate and services, (2) renegotiating and restructuring eligible supply and capacity contracts to take advantage of market opportunities, (3) utilizing the flexibility within supply and capacity contracts to purchase and dispatch gas, and release capacity, in the most cost effective manner, (4) promoting more efficient peak day use of natural gas and load growth from "year-round" markets, in order to improve Piedmont's load factor and reduce average unit costs, and (5) reviewing gas supply activities with Piedmont's Energy Risk Management Committee, in order for the gas supply department to receive input and direction on its performance and planning activities.

6. At April 1, 2003, the balance of Piedmont's Deferred Cost of Gas Account No. 253.04 was a net under-collection of $4,962,995.

7. At March 31, 2004, the adjusted balance of Piedmont's Deferred Cost of Gas Account No. 253.04 was a net over-collection of $1,624,141, before including net hedging activity.

8. Piedmont's total risk management hedging gains or loss for the review period resulted in a $412,335 increase to the cost of gas.

9. After including the net effect of the hedging activity, the Commission finds that the net over-collection in Account # 253.04 is $1,211,806.

10. Piedmont's current rate schedules include a benchmark cost of gas of $5.75 per dekatherm.

11. Under its purchased gas adjustment and industrial sales program, Piedmont has the opportunity to recover all negotiated losses from Piedmont's competitive industrial customers.

12. Because Piedmont has the opportunity to recover all negotiated losses from Piedmont's competitive industrial customers, Piedmont must negotiate its rates to industrial customers only to the level that is competitive with the alternate fuel prices without going below the actual cost of gas.

13. To prevent Piedmont from selling gas at a price that is below Piedmont's actual cost of gas for the month, Piedmont's Gas Supply Department evaluates the rates being negotiated with industrial customers and compares the rates to the volumes and average commodity price of gas each month.

14. For the winter period ending March 31, 2004, Piedmont had firm demand entitlements and peaking capabilities with Transco and other suppliers totaling 1,350,633 dekatherms. Also for the winter period of 2003-2004, Piedmont had a Design Day demand of 1,265,232 dekatherms.

15. To meet its responsibility of maintaining adequate supplies, Piedmont is active in purchasing gas supplies on the spot market and in making arrangements through interstate pipelines for the delivery of those supplies, in utilizing changes in the gas industry to maximize throughput and load factor on Piedmont's natural gas system, in negotiating with suppliers for capacity on the interstate systems, in acquiring additional storage capacity, and in negotiating contracts with suppliers for back-haul gas.

CONCLUSIONS OF LAW

1. Piedmont is engaged in the natural gas distribution business within the state of South Carolina and is a public utility under the laws of the state of South Carolina (S.C. Code Ann. Section 58-5-10, *et seq.*) whose gas distribution operations in South Carolina are subject to the jurisdiction of this Commission.

2. For the period of April 1, 2003, through March 31, 2004, Piedmont's gas purchasing policies and practices were prudent. Piedmont maintained sufficient information about, and contact with, the market and Piedmont's own customers to properly operate under the PGA and industrial sales program. Further, Piedmont utilized its "best cost" gas purchasing policy in a manner which allowed Piedmont to maintain an overall gas supply portfolio to meet the needs of Piedmont's customers, both firm and interruptible, and which allowed Piedmont to obtain gas supplies, under both firm supply

contracts and the spot market, taking advantage of market opportunities while also protecting Piedmont's required firm market needs. Piedmont's experimental hedging program is also prudent and has resulted in a reduction in price volatility for its South Carolina customers at a net review period cost of $412,335, reflected as an increase to cost of gas for the review period. Finally, Piedmont has demonstrated prudent actions under its "best cost" gas purchasing policy by participating in relevant proceedings before regulatory bodies where rates could be affected and in reviewing, restructuring, and renegotiating supply contracts for the purchase, dispatch, and transportation of gas in a cost effective manner. The result of Piedmont's actions is that Piedmont is meeting its obligation to provide and maintain adequate supplies at just and reasonable costs to serve its customers.

3. The current procedures in Piedmont's PGA result in a properly stated cost of gas recorded in compliance with Commission Orders. Further, the activity recorded in Piedmont's Deferred Cost of Gas Account No. 253.04 and Piedmont Deferred Account – Hedging Program Account No. 191.01 was properly recorded and reported to the Commission as required.

4. The adjustments to Piedmont's Deferred Cost of Gas Account No. 253.04 proposed by the Staff and resulting in a net increase in the overcollection at March 31, 2004 by $223,612 are adopted and approved. Piedmont accepted the adjustments proposed by the Staff, and no party objected to the proposed adjustments.

5. The appropriate benchmark cost of gas is $5.75 per dekatherm. At March 31, 2004, the benchmark cost of gas included in Piedmont's rate schedules was

$5.75 per dekatherm. No party challenged that benchmark cost of gas or requested that the Commission consider another benchmark cost of gas.

IT IS THEREFORE ORDERED THAT:

1. Piedmont is hereby permitted to maintain its commodity cost of gas at $5.75 per dekatherm. The setting of this benchmark cost of gas is without prejudice to Piedmont's right to further revise the benchmark in accordance with provisions of its PGA, and is without prejudice to the parties' right to request review of the benchmark in accordance with the Commission's PGA provisions.

2. Piedmont is hereby permitted to continue its experimental Natural Gas Hedging Program approved in Order No. 2002-223, dated March 26, 2002.

3. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

/s/
Randy Mitchell, Chairman

ATTEST:

/s/
G. O'Neal Hamilton, Vice Chairman

(SEAL)